

**By E-mail**

Mr James Gunn  
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International Auditing and Assurance Standards Board  
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**8 October 2012**

Dear Mr Gunn,

**Comments on Consultation Paper – Improving the Auditor’s Report**

The Dubai Financial Services Authority (DFSA) thanks you for the opportunity to provide commentary on Consultation Paper – Improving the Auditor’s Report.

The DFSA believes that it is an opportune time to enhance the quality, relevance and value of auditor reporting in responding to the needs of investors and other users.

If you require any further elaboration or clarification on the matters raised please contact Mr Naweed Lalani, Senior Manager on +971 4362 1549 or by e-mail on [nlalani@dfsa.ae](mailto:nlalani@dfsa.ae).

We look forward to participating in any further work on this area.

Yours sincerely



**Matt Gamble**  
**Director, Head of Anti-Money Laundering, Supervision**



## **Comments on Consultation Paper**

### **Improving the Auditor's Report**

**October 8, 2012**

### Question 1

Overall, do you believe the IAASB's suggested improvements sufficiently enhance the relevance and informational value of the auditor's report, in view of possible impediments (including costs)? Why or why not?

The DFSA is supportive of the proposed restructuring of the audit report to commence with the opinion and to clarify the respective roles of the auditor and those charged with governance.

The DFSA is of the view that the IAASB's suggested improvements will enhance the relevance and informational value of the auditor's report but at the same time has concerns with sections of the Auditor Commentary.

We are of the view that the proposed statements related to going concern that this may be misinterpreted by users as "soft qualifications". Another concern is that this commentary may allow auditors to use these "soft qualifications" instead of actual qualifications in the auditor's reports.

Our final concern is that the proposed changes will increase the cost of the audit.

### Question 2

Are there other alternatives to improve the auditor's report, or auditor reporting more broadly, that should be further considered by the IAASB, either alone or in coordination with others? Please explain your answer.

The DFSA is of the view that there is currently no immediate need to look at other alternatives to improve the auditor's report. It is particularly important to provide a stable platform to these proposed improvements as these proposed improvements differ significantly from current "pass/fail" model of Auditor Reporting.

IAASB, along with National Standard Setters (NSS) and Regulators, must engage in awareness activities to further reduce the expectation gap.

### Question 3

Do you believe the concept of Auditor Commentary is an appropriate response to the call for auditors to provide more information to users through the auditor's report? Why or why not?

The DFSA is of the view that the concept of Auditor Commentary is an appropriate response to the call for auditors to provide more information to users through the auditor's report.

The preparation of financial statements remains the responsibility of the management and TCWG. The auditor's role is to provide an opinion on true and fair presentation of these financial statements prepared by the management.

Generally there has been criticism on expanding the auditor's report to include additional commentary on significant areas which arguably can be provided by the management with auditor providing an assurance report instead of providing the entire commentary.

To conclude, the DFSA believes that such an expanded report (mandating the order of the contents) would provide a reasonable level of consistency and comparability with enough information for the users of financial statements to make informed decisions.

#### **Question 4**

Do you agree that the matters to be addressed in Auditor Commentary should be left to the judgment of the auditor, with guidance in the standards to inform the auditor's judgment? Why or why not? If not, what do you believe should be done to further facilitate the auditor's decision-making process in selecting the matters to include in Auditor Commentary?

It is important that sufficient guidance should be provided in the standards around Auditor Commentary as absence of such may lead additional audit costs and may cause inconsistencies.

In summary, the DFSA would prefer the IAASB to specify considerations and criteria to be addressed in Auditor Commentary at the same time allowing for the application of professional judgement by the auditor.

#### **Question 5**

Do the illustrative examples of Auditor Commentary have the informational or decision-making value users seek? Why or why not? If not, what aspects are not valuable, or what is missing? Specifically, what are your views about including a description of audit procedures and related results in Auditor Commentary?

It would appear that the illustrative examples of Auditor Commentary do have informational and decision-making value for users however it is expected but this will be eventually be confirmed and fine-tuned over time.

Regarding including a description of audit procedures and related results in Auditor Commentary, the DFSA is of the view that this information may be useful but may come at an additional cost. Also it is important that this information is kept as non-technical as possible.

### **Question 6**

What are the implications for the financial reporting process of including Auditor Commentary in the auditor's report, including implications for the roles of management and those charged with governance (TCWG), the timing of financial statements, and costs?

Including Auditor Commentary in the auditor's report may result in some delay in the finalisation of the audit and an increase in the audit fees however it should be accommodated in the audit if properly planned.

### **Question 7**

Do you agree that providing Auditor Commentary for certain audits (e.g., audits of public interest entities (PIEs)), and leaving its inclusion to the discretion of the auditor for other audits is appropriate? Why or why not? If not, what other criteria might be used for determining the audits for which Auditor Commentary should be provided?

The DFSA agree that Auditor Commentary should only be provided for certain audits (e.g., audits of public interest entities (PIEs)). For the other audits, this should be left at the discretion of the auditor.

Extending the scope of Auditor Commentary is not feasible for all audits as this is a measure of transparency which the users of PIE require. For other audits, the general users of the financial statements would be in a position to demand such information on as needs basis and should not be made a mandatory part of the audit report.

NSS and jurisdictional regulators would play an important role in determining which other audits should and should not contain the Auditor Commentary.

### **Question 8**

What are your views on the value and impediments of the suggested auditor statements related to going concern, which address the appropriateness of management's use of the going concern assumption and whether material uncertainties have been identified? Do you believe these statements provide useful information and are appropriate? Why or why not?

The DFSA is of the view that although existing tools are there to report on going concern (by using emphasis of matter paragraphs), the auditor should be required to make a positive statement on going concern.

The DFSA has come to this view based on its monitoring inspections of the auditor's working paper files. Generally the working papers carry a good audit trail on auditor's

evaluation of management's assessment of going concern but at times it is not clear if auditor has actually considered the going concern assumption appropriately.

A positive statement would help in reducing the expectation gap.

#### **Question 9**

What are your views on the value and impediments of including additional information in the auditor's report about the auditor's judgments and processes to support the auditor's statement that no material uncertainties have been identified?

As commented above, the DFSA is of the view that including additional information in the auditor's report will add value to the users of the financial statements but may be misinterpreted by users as "soft qualifications".

#### **Question 10**

What are your views on the value and impediments of the suggested auditor statement in relation to other information?

The DFSA is of the view that the Auditors Commentary on the work performed by the auditor is a useful addition and would certainly add value to the user.

The user, on a general basis, is not aware of the audit procedures carried out by the auditor in order to form an opinion on the financial statements. This step will assist in decreasing the "Expectation Gap".

#### **Question 11**

Do you believe the enhanced descriptions of the responsibilities of management, TCWG, and the auditor in the illustrative auditor's report are helpful to users' understanding of the nature and scope of an audit? Why or why not? Do you have suggestions for other improvements to the description of the auditor's responsibilities?

The DFSA believes the enhanced descriptions of the responsibilities of management, TCWG, and the auditors in the illustrative auditor's report are helpful to users' understanding of the nature and scope of an audit.

Again this is one way to reduce the expectation gap.

**Question 12**

What are your views on the value and impediments of disclosing the name of the engagement partner?

The DFSA, as an audit regulator, is in favour of disclosing the name of individual auditors. This would assist in assessing the overall quality of an audit and does carry with it the intrinsic value of the naming the auditor and all that is associated.

**Question 13**

What are your views on the value and impediments of the suggested disclosure regarding the involvement of other auditors? Do you believe that such a disclosure should be included in all relevant circumstances, or left to the auditor's judgment as part of Auditor Commentary?

The DFSA is of the view that disclosures regarding the role of other auditors should be included in all relevant circumstances.

**Question 14**

What are your views on explicitly allowing the standardized material describing the auditor's responsibilities to be relocated to a website of the appropriate authority, or to an appendix to the auditor's report?

The DFSA supports amending ISA 700 to more explicitly allow the standardized material describing the auditor's responsibilities to be positioned on a website or as an appendix to the auditor's report.

**Question 15**

What are your views on whether the IAASB's suggested structure of the illustrative report, including placement of the auditor's opinion and the Auditor Commentary section towards the beginning of the report, gives appropriate emphasis to matters of most importance to users?

The DFSA is of the view that moving the opinion paragraph to the beginning of the auditor's report provides appropriate emphasis to matters of most importance to users.

**Question 16**

What are your views regarding the need for global consistency in auditor's reports when ISAs, or national auditing standards that incorporate or are otherwise based on ISAs, are used?

The DFSA is of the view that consistency in auditor's report is paramount to investors. The IAASB's "building blocks approach" is a practical remedy when accommodating existing and evolving changes in corporate or auditor reporting in various national environments.

**Question 17**

What are your views as to whether the IAASB should mandate the ordering of items in a manner similar to that shown in the illustrative report, unless law or regulation require otherwise? Would this provide sufficient flexibility to accommodate national reporting requirements or practices?

The DFSA is of the view that a fair level of consistency is a desirable end. However, but only where justified, NSS and regulators should be given the option to divert from the ordering.

**Question 18**

In your view, are the IAASB's suggested improvements appropriate for entities of all sizes and in both the public and private sectors? What considerations specific to audits of small- and medium-sized entities (SMEs) and public sector entities should the IAASB further take into account in approaching its standard-setting proposals?

The DFSA is of the view that currently these suggested improvements should only be considered for Public Interest Entities. Care should be taken in mandating these requirements to entities of all sizes.